aupracon
TAX SPECIALISTS
Consulting . Training . Compliance

Postal: P O Box 504899 Gaborone
Physical: Commerce Park, Plot 49, Unit 2
Telephone: 393 9435 / 71 81 58 36
website: www.aupracontax.co.bw

12% VAT APPLIES ON DEBIT/CREDIT NOTES: By Jonathan Hore

It is not so long ago when the then Minister of Finance & Economic Development announced the increase of the VAT rate from 12% to 14%. This change in rate dragged along technical complexities as well as more questions than answers regarding the treatment of various transactions. One question that seems to circulate amongst most business operators is how to treat credit notes or debit notes for transactions that were processed during the periods before 1 April 2021, when the VAT rate rose to 14%. I once asked the very same question to some of my colleagues and truly got some captivating responses. Allow me to clarify the VAT treatment on this question and gratify your curiosity. In this article, words importing the masculine shall be deemed to include the feminine.

The principles

It is critical to understand that the VAT system is regulated by an Act of Law which prescribes various principles and procedures enshrined in the very same law i.e. the VAT Act. Before I get to our answer let us first understand various principles that are ordained by that law.

Our first port of call is to understand the term 'supply' in relation to VAT. The meaning given to this word in the VAT Act is very wide. In essence, it includes all forms of the sale of goods and services. Secondly, the Act provides specific parameters which regulate the time when each 'supply' is made. This is one key principle which is elucidatory to the VAT treatment of credit and debit notes for goods and services made before 1 April 2021.

The Act stipulates that a VAT liability is triggered by a 'supply' of goods or services, whereas the due date for that VAT liability is determined by the time that supply was made i.e., 'time of supply'. The general rule provided by the Act which is used to determine the time of supply is the earlier of issuing an invoice, by the supplier or the time any payment is received for the supply. This actually means that VAT becomes due and is calculated either on the date of issue of an invoice or the date 'any' payment is received by the supplier. What does this mean for an invoice issued when the VAT rate was 12%? This means that VAT on such an invoice was due and must have been charged and paid to BURS at 12%. Now, the issue is whether a credit or debit note issued in respect of such a sale must bear 12% or 14% if made any time after 1 April 2021.

Credit/Debit notes

Basically, a credit note is a document that reduces or cancels an invoice. On the other hand, a debit note actually does the opposite. In essence, a credit note or debit note is issued to make an adjustment on an already concluded transaction. Technically, for VAT purposes, these documents amend a 'supply' already made. Thus, a credit or debit note is not a supply of goods or services neither does it alter the time of a supply. Put in simple words, such notes maintain the same VAT rate as that of the original invoice.

Let's summarise

As highlighted above, VAT is triggered by a supply of goods or services whereas a credit or debit note is an adjustment to a supply already made. Consequently, these notes denote an amendment of a past supply. This therefore implies that such notes are not affected by any statutory changes to VAT rates. A VAT rate on a credit or debit note follows the same rate that applied on the adjusted invoice. For instance, if XYZ (Pty) Ltd issues a credit note of P 1.12m including VAT to cancel an invoice issued on 1 March 2021, the VAT rate to be used is 12%. The same would apply if a debit note is issued in respect of a prior supply. However, a new supply made after 1 April 2021 must, with a few exceptions, attract VAT at 14%.

Well folks, I hope that was insightful. As Yours Truly says goodbye, remember to pay to Caesar what belongs to him. If you want to join our Tax whatsapp group or know more about our 9 Tax e-books, send me a text on the number below.